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July 13, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

Attention: Public Comments

Subject: Federal Housing Finance Board; Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for Federal Home Loan Banks; RIN Number 3069-AB30; Docket Number 2006-03

Gentle People:

The National Housing Law Project is a national organization that promotes the construction and preservation of affordable housing. Working with nonprofit housing developers throughout the nation, we are acutely aware of the critical importance of the Affordable Housing Program (AHP) to the development of affordable housing. It is a highly effective, laudable, and unique public-private partnership among the Banks, their member institutions, community-based sponsors, state and local governments, and other entities. Because we believe that the proposed rule will curtail the program's effectiveness, we are using this opportunity to comment on the above referenced proposed rule.

AHP funds represent 10% of FHLBanks net earnings, and are made possible through the borrowing activities of its members. The proposed rule, with its requirement to increase retained earnings and thereby decrease the dividends available to members, is likely to make membership in the Banks less attractive for some current members. Some members, particularly larger ones, may choose to borrow less, and therefore reduce the profitability of the Bank, and consequently the net earnings that support AHP programs.

The proposed regulation may also limit the ability of the FHLBanks to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP program. Many FHLBanks provide these voluntary funds, including the Federal Home Loan Bank of San Francisco.

We are especially concerned that the Finance Board does not seem to have devoted sufficient time to evaluating the impact of the proposed rule on AHP programs, and other voluntary contributions, which rely on FHLBank earnings for their funding. The proposed rule does not include any such analysis, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for AHP programs.

The proposal will cause a simple trade-off between retained earnings and dividends – that is, requiring FHLBanks to increase retained earnings requires a reduction in dividends to members. Estimates vary, but the Stanford Washington Research Group indicates that the increase in retained earnings is over $3 billion for the Federal Home Loan Bank System. Some estimate that the Federal Home Loan Bank of San Francisco would have to increase its retained earnings by over $500 million. The increase could cause member institutions to find FHLBanks membership less financially attractive. Larger institutions may choose other sources of funding resulting in a reduction in advances, negatively impacting FHLBanks earnings and reducing AHP funds.

It is ironic that, in its proposal, the Finance Board indicates that the FHLBanks are adequately capitalized, yet suggests just the opposite. The overall impact of the proposed rule could be particularly adverse in this period of increasing mortgage rates and reduced federal funding for housing. Families unable to afford higher rate mortgages or shut out from the ever shrinking amount of federal housing subsidies do not need the Finance Board to cause a reduction in a successful public-private program like AHP.

We urge you to withdraw this proposed rule. Its impact could be extremely damaging to the efforts of organizations that produce affordable housing nationwide and thereby serve families in need.

Thank you for your consideration of these comments.

Sincerely,

Gideon Anders
Executive Director